

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

A REVIEW OF THE BUDGET PERFORMANCE MEASURES
OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION
AND OF ITS COMPLIANCE WITH STATUTES

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-758

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AND OF ITS COMPLIANCE WITH STATUTES

JANUARY 1988



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January 21, 1988

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Honorable Bruce Bronzan, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 448
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the need for the California Public Utilities Commission (commission) to more fully report the work statistics it uses to support its annual budget. The commission reports its work in the governor's budget through performance measures, which are indicators of the work the commission performed. We found that the commission's performance measures do not always fully describe the commission's work, that the commission does not link the performance measures to the estimated staffing that it needs to accomplish the work, or that the commission reported some inaccurate data for performance measures of work conducted during fiscal year 1986-87.

In addition, the commission has fulfilled most of the requirements for 12 statutes passed from 1983 through 1986: the commission has fulfilled requirements for 9 statutes, but has not fulfilled four specific requirements for 3 statutes.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas W. Hayes".
THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

The California Public Utilities Commission (commission) should more fully report the work statistics it uses to support its annual budget. The commission reports its work in the governor's budget through performance measures, which are indicators of the work that the commission has accomplished. During our review of the performance measures that the commission reported for work done during fiscal year 1986-87, we found the following:

- The commission's performance measures do not always fully describe the commission's work;
- The commission does not link the performance measures to the estimated staff that it needs to accomplish the workload; and
- Some of the data for performance measures reported by the commission for work conducted during fiscal year 1986-87 are inaccurate.

In addition, the commission has fulfilled most of the requirements for 12 statutes passed from 1983 through 1986. During our review, we noted the following conditions:

- The commission has fulfilled all of the requirements for 9 statutes but has not fulfilled four requirements for 3 statutes; and
- The commission submitted nine of ten required reports to the Legislature, and the commission submitted five of these reports by the established deadlines but submitted the four remaining reports as much as 144 days late.

BACKGROUND

The commission regulates the rates and services of more than 1,500 privately owned utilities companies and over 25,000 transportation companies. The commission's objectives include ensuring that safe and adequate gas, electric, telephone, water, transportation, and other services are available to consumers at rates that are fair to both the consumers and the companies. Rates must reflect the reasonable expenses and revenues of a company's operations and include a fair rate of return on a company's investment. For fiscal year 1986-87, the commission had a budget of over \$61.8 million and had over 970 staff members, including accountants, attorneys, engineers, economists, other professionals, and support personnel.

PRINCIPAL FINDINGS

The California Public Utilities Commission Should More Fully Report Its Work Statistics

The commission reports the results of its regulatory activities in the governor's budget in the form of performance measures, which are indicators of the work that the commission has accomplished or expects to accomplish. However, the performance measures that it reports do not always fully describe the commission's workload.

We assessed the performance measures that the commission used to report work in the regulation of utility rates, the regulation of transportation rates, and the licensing of transportation, and we found that, although the commission reports as performance measures the number of decisions it issues for rate cases, these measures do not always fully reflect the commission's work activities. For example, during fiscal year 1986-87, the commission reported issuing six decisions on general rate cases for energy and telecommunications

utilities. However, only approximately 28 percent of the staff hours charged to proceedings for general rate cases for these utility industries were used to process the six decisions. The remaining staff hours were used in proceedings for other general rate cases for which the commission has not yet issued decisions.

In addition, the commission does not link its performance measures to the estimated staff that it needs to perform its work; therefore, the commission's reports for the governor's budgets do not convey the fluctuation in the commission's staffing needs. For example, the commission reports that, during fiscal year 1986-87, it processed 54,500 complaints and requests for assistance and that it issued five decisions for energy utility general rate cases. The commission, however, does not report that it used approximately 15.3 staff years to process the 54,500 complaints and requests and 9.5 staff years to issue the five decisions.

Finally, some of the data for the performance measures are not always accurate. Eight of the 47 performance measures (17 percent) that we reviewed contained error rates greater than 5 percent.

The California Public Utilities Commission Has Complied With Most Statutory Requirements

The Legislature requested that we review the commission's compliance with 12 statutes that affect the commission and that were passed from 1983 through 1986. The commission completely fulfilled the requirements of 9 statutes but did not meet four requirements in 3 statutes. During our review, we found that the commission did not conduct a study of the insurance needs of the transportation industry and, therefore, did not submit the required preliminary and final reports on the study. The commission did not complete the insurance study because insurance companies did not provide information that the commission requested and that was necessary for completing the study. In

addition, the commission has not reviewed all the computer operations programs that public utilities use to analyze the costs of operations and to justify rate changes in commission hearings. According to the commission's executive director, it would not be a cost-effective use of funds or personnel to review smaller utilities. Further, the commission has not set some baseline rates for residential gas usage according to statutory requirements. However, according to the commission's executive director and the general counsel, the commission is gradually phasing in the baseline rates.

During our review, we also found that, although the commission promptly submitted five reports required by the statutes, it submitted four other reports as much as 144 days late.

RECOMMENDATIONS

To improve the reporting of its work statistics in the governor's budget, the commission should take the following actions:

- Review and modify the performance measures that it now reports to ensure that the measures more fully describe the commission's work; and
- Present accurate data on those performance measures that it reports.

To improve its compliance with statutory requirements, the commission should take the following actions:

- Reassess its statutory responsibility to review the computer operations programs of public utilities;
- Report to the Legislature within one year on its progress in implementing baseline rates according to the requirements of Chapter 473, Statutes of 1986; and
- Complete and submit all reports by the required deadlines.

AGENCY RESPONSE

The executive director of the commission agreed with the report's recommendations and stated that the commission will begin implementing them immediately.

INTRODUCTION

The California Public Utilities Commission (commission) is responsible for regulating privately owned public utilities companies and transportation companies. Article XII of the California State Constitution and the Public Utilities Code, Section 201, et seq., describe the responsibilities of the commission. These responsibilities include ensuring the availability of safe and adequate gas, electric, telephone, water, transportation, and other services to consumers at rates that reflect the reasonable expenses and revenues of a company's operations and include a fair rate of return on a company's investment.

The commission regulates more than 25,000 transportation companies, including railroads, bus companies, trucking companies, and vessels that transport passengers or freight in intrastate commerce. The commission also regulates 1,500 privately owned utilities, including gas, electric, water, steam, sewer, pipeline, telephone and telegraph, and cellular and radio-telephone companies.

The commission consists of five commissioners appointed by the governor, with consent of the State Senate, for terms of six years. One of the five, elected annually as president by the other commissioners, presides at decision-making meetings and other formal sessions.

In addition, the commission appoints an executive director who is responsible for the day-to-day operation of the commission and who directs staff and ensures that the commission processes matters efficiently and expeditiously. The executive director also prepares and presents the commission's budget to the fiscal officers of the State and to the Legislature.

The commission's staff is composed of an executive office and seven operating divisions, each headed by a director. As of June 30, 1987, over 970 people comprise the staff, including attorneys, accountants, engineers, economists, and other professional and support personnel.

The Commission's Budget

In the commission's budget for fiscal year 1986-87, the commission estimated expenditures of approximately \$61.8 million in three programs: regulation of utilities, regulation of transportation, and administration. In the regulation of utilities, the commission is responsible for providing the public with adequate and safe utility services at the lowest reasonable rates. Four elements exist within this program: regulation of rates, service and facilities, certification, and safety.

The commission is also responsible for regulating privately owned passenger and freight transportation companies, including motor carriers, railroads, vessels, pipelines, and transit guideway systems. This program, the regulation of transportation, protects the public interest through four elements: regulation of rates, service and facilities, licensing, and safety.

Finally, the administration program provides administrative support to the commission through fiscal services, personnel and training, electronic data processing, business services, and other management functions.

The Commission's Budget Process

Annually, the commission prepares its budget according to the general instructions of the Department of Finance. These instructions direct all departments to prepare baseline budgets, which, according to the glossary of the 1986-87 Governor's Budget, reflect "the anticipated costs of carrying out the current level of service or activities as authorized by the Legislature. It includes adjustment for cost increases but does not include changes in level of service over that authorized by the Legislature."

When the commission identifies a need for additional resources, including those required by statutes, the commission prepares budget change proposals. These are requests to change the level of service or funding sources for activities that the Legislature authorizes or to propose new program activities that are not now authorized. The commission submits its budget and budget change proposals to the Department of Finance for review by that department and for inclusion in the governor's budget.

SCOPE AND METHODOLOGY

The purpose of our audit was to review and assess the performance measures that the commission reports for the governor's budget and to review the commission's compliance with 12 statutes passed from 1983 through 1986.

We reviewed the performance measures that the commission reported for work done during fiscal year 1986-87 in three program elements: the regulation of utility rates, the regulation of transportation rates, and the licensing of transportation. The commission will report these performance measures in the 1988-89 Governor's Budget. We examined summary and supporting documentation for all 35 of the performance measures reported for the regulation of utility rates, for 7 of the 11 performance measures reported for the regulation of transportation rates, and for 5 of the 19 performance

measures reported for licensing of transportation. To determine whether some of these measures accurately reflect the work of commission staff, we used the commission's standard time reporting system to identify the number of hours charged to specific proceedings and to identify other indicators that might describe the commission's activities.

To determine whether the commission complied with legislative requirements, we reviewed pertinent statutes, interviewed staff and management, and examined supporting documentation, including commission reports and decisions. These activities enabled us to assess whether the commission fulfilled the statutes and met deadlines for submitting reports to the Legislature.

AUDIT RESULTS

I

THE CALIFORNIA PUBLIC UTILITIES COMMISSION SHOULD MORE FULLY REPORT ITS WORK STATISTICS

The California Public Utilities Commission (commission) reports the results of its regulatory activities in the governor's budget in the form of performance measures, which are indicators of the work that the commission has performed. For example, the commission reports the results of its rate-setting activities in part by the number of decisions it issued for rate cases; it reports the results of its safety-monitoring activities in part by the number of inspections it performed for gas safety. Table 1 shows an example of the commission's performance measures reported in the 1986-87 Governor's Budget. Note that, for example, the commission reported the category "General rate case decisions" as a performance measure.

TABLE 1

<u>Performance Measures</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Electric Corporations			
General rate case decisions	3	3	2
General rate case increases requested (millions)	\$656		
General rate case increases authorized (millions)	\$39		
Energy cost offset decisions	5	6	5
Energy cost offset increases requested (millions)	\$1,430.5		
Energy cost offset increases authorized (millions)	\$595.2		

However, the performance measures that the commission reports do not always fully describe the commission's work. For example, the performance measures may not fully describe all the work that staff perform to process general rate cases. The commission only partially describes its work in 31 (48 percent) of the 65 performance measures that we assessed and does not describe its work at all in 2 (3 percent) of these 65 performance measures. Further, the commission does not link its individual performance measures to the estimated staffing that it needs to accomplish the work. Finally, some of the performance measures that the commission reported are inaccurate. Data for 8 of the 47 performance measures that we reviewed contained error rates greater than 5 percent.

The Commission's Performance Reporting Process

Annually, in the governor's budget, the commission proposes the staffing and funding that it will need for work during the coming fiscal year. The commission also submits estimates for the staffing and funding for the current fiscal year and data for the actual amounts of staffing and funding used during the previous fiscal year. In addition, the commission uses performance measures to report the work that it has performed in the previous fiscal year and that it estimates that it will perform in the current and coming fiscal years.

The commission reports the staffing that it needs to accomplish its work for administration, for two regulatory programs, and for elements within those two programs. The two programs are the regulation of utilities and the regulation of transportation. Each program consists of four elements, and each element addresses a different type of regulatory activity within the programs. Three program elements--the regulation of utility rates, the regulation of transportation rates, and the licensing of transportation--account for over 84 percent of the staff years that the commission spends on the regulation of utilities and the regulation of transportation. Because these program elements represent such a significant percentage of staff years, we assessed the accuracy of the performance measures for these program elements that describe the commission's work and the accuracy of the data upon which the performance measures were based.

Performance Measures Do Not Always Reflect the Commission's Workload

The commission reports 65 performance measures for the program elements of regulation of utility rates, regulation of transportation rates, and licensing of transportation. In our discussion of each of the 65 performance measures, the commission staff stated that it believes that 63 (97 percent) of the 65 performance measures that we reviewed describe the commission's workload; however, they agreed that 2 (3 percent) of the performance measures do not describe the commission's work, and 31 of the 65 measures (48 percent) only partially describe the commission's work. Appendix A lists and categorizes the performance measures according to our comparison.

The commission uses a standard time-reporting system to record the staff time spent on commission activities. To assess the degree to which some of the performance measures describe the commission's work, we compared the staff hours summarized in the standard time-reporting system for fiscal year 1986-87 to the data for performance measures reported for the same fiscal year for the governor's budget.

As a result of our comparison, we found that some of the performance measures only partially describe the commission's work. For example, measures that report the number of decisions issued by the commission are only partially descriptive of the commission's work because the measures do not show that staff worked on other cases during the year that did not result in decisions. Using the commission's standard time-reporting system, we calculated the number of hours that staff charged to decisions on general rate cases, in which the commission reviews a utility's finances and considers the quality of service and other factors to arrive at fair rates.

During fiscal year 1986-87, the commission reported issuing six decisions for electric, gas and heat, and telephone and telegraph corporations, and staff charged at least 25,000 hours to these six cases. However, staff also charged at least 66,000 hours to proceedings for other general rate cases for the same utility industries, but the commission has not yet issued decisions for these. Thus, the performance measures reporting only the decisions that the

commission issued reflect only approximately 28 percent of the staff hours charged for general rate cases for these three utility industries during fiscal year 1986-87.

One example in which the performance measures only partially reflect the work that commission staff performed involves the Southern California Gas Company. During fiscal year 1986-87, the commission staff spent approximately 12,600 hours preparing analyses that it used as the basis for negotiating a settlement for a general rate case with the Southern California Gas Company. The settlement, or agreement on the outcome of the case, which the Southern California Gas Company proposed, postponed this general rate case from test year 1988 to test year 1990. A test year is a 12-month operating period that the commission uses to evaluate the utility's cost of service and adequacy of present or proposed rates. In May 1987, the commission issued a decision which adopted a settlement with the Southern California Gas Company and did not issue a general rate decision. As a result, this case does not appear as one of the general rate case decisions that the commission reported for the regulation of utility rates for work conducted during fiscal year 1986-87, yet staff spent a significant amount of time processing the case. Appendix B details the commission's settlement with the Southern California Gas Company in this general rate case.

The Commission Does Not Link
Staffing Needs to Work Reported
by Performance Measures

Although, in the governor's budget, the commission uses staff years and funding requirements to report its staffing needs for each program element, the commission does not link the requirements in staff years to the work that the individual performance measures report for each program element. For example, during fiscal year 1986-87, the commission processed over 54,500 informal cases and issued five decisions on general rate cases for energy utilities.¹ Based on information contained in the commission's standard time-reporting system, we calculated that the commission staff charged 15.3 staff years during fiscal year 1986-87 to process the 54,500 informal cases. During that same year, the commission charged 9.5 staff years to issue the five decisions. Because the commission does not link the individual performance measures to the staff years used during the year, the reader of the commission's budget would not know that the commission required approximately 60 percent more staff years to process 54,500 cases than it required to issue five decisions.

The staffing that the commission requires to process cases varies, even within the same type of proceeding. Thus, unless the

¹We include approximately 8,500 cases that the commission reported that it processed but for which no records were available for our review.

commission links the staffing that it used to perform the work to the individual performance measures, a reader of the commission's budget is unable to assess the amount and the variations of staffing that the commission needs to perform its work. For example, we used the commission's standard time-reporting system to calculate the number of staff hours that the commission charged to two of the five decisions it issued on cost offset proceedings for electric energy during fiscal year 1986-87. Through these offset proceedings, the commission enables utilities to keep pace with changing costs between general rate cases by granting rate adjustments to offset those changing costs. During fiscal year 1986-87, staff charged over 5,900 hours to a proceeding for energy cost offset involving a major electric utility. Staff also charged 800 hours to a similar proceeding involving a smaller electric utility. Yet, when the commission reports these two decisions in its performance measure, it will report only the total number of decisions that it issued without identifying the difference in staff time needed to process the decisions.

Data for Performance Measures Are Not Always Accurate

The commission did not always report accurate data for performance measures used to indicate work conducted during fiscal year 1986-87 and to be included in the 1988-89 Governor's Budget. (Data for performance measures are the figures that accompany each performance measure. For example, in Table 1, for the performance measure of general rate case decisions, the commission reported three decisions

issued for fiscal year 1984-85.) We found that, in the three program elements, the commission reported accurate data for 37 (79 percent) of the 47 performance measures that we reviewed. We considered the data accurately reported if they contained less than a 5 percent error rate. However, data for 8 (17 percent) of the 47 performance measures contained error rates greater than 5 percent, and for those 8 performance measures, the error rate ranged from 8 percent to 36 percent.

Table 2 shows the number of performance measures in the three program elements for which the data were accurate and the number of performance measures that had data error rates greater than 5 percent. Appendix C lists the performance measures that we reviewed and presents the data both that the commission reported and that we identified for the regulation of utility rates, the regulation of transportation, and the licensing of transportation. In addition, Appendix C summarizes the results of our review of the performance measures for the three program elements.

TABLE 2
NUMBER OF PERFORMANCE MEASURES
AND ERROR RATES FOR THREE PROGRAM ELEMENTS

<u>Program Elements</u>	<u>Less Than Five Percent Error Rate</u>	<u>More Than Five Percent Error Rate</u>	<u>Not Audited</u>	<u>Total</u>
Regulation of Utility Rates	31	4		35
Regulation of Transportation Rates	3	2	2*	7
Licensing of Transportation	<u>3</u>	<u>2</u>	—	<u>5</u>
Total	<u>37</u>	<u>8</u>	<u>2</u>	<u>47</u>

* Data for two of the performance measures could not be verified because the commission's Transportation Division could not provide summary documents for the measures.

Data Errors in Performance Measures
For the Regulation of Utility Rates

In the regulation of utility rates, the commission reports as data the number of rate case decisions that it issued for electric, gas and heat, telephone and telegraph, and water and sewer system corporations. The commission also reports the total rate increases that these corporations request, the total rate increases that it authorizes, and the number of requests for assistance that it receives. We reviewed all 35 measures reported for the work conducted in the regulation of utility rates during fiscal year 1986-87. The

commission correctly reported data for 31 of the 35 performance measures; however, it made errors greater than 5 percent in its report of data for 4 performance measures.

Data for 3 of the 4 incorrect performance measures consisted of the number of informal cases (consumer requests for assistance) that the commission's Consumer Affairs Branch processed. Although the commission reported that the Consumer Affairs Branch processed a total of 49,209 cases for the four types of utilities that the commission regulates, the Consumer Affairs Branch actually processed 5,440 more cases, for a total of 54,649. The manager of the Consumer Affairs Branch said that this occurred because, when the Consumer Affairs Branch compiled this number from its computer database, a number of cases had not yet been entered into the database.

Further, although most of the data for performance measures that the commission reported for the regulation of utility rates are accurate, the method of summarizing some of the measures is misleading. The commission's report indicates that electric corporations requested rate adjustments with a net result of a decrease of \$182 million and that the commission authorized rate decreases of \$137 million. However, the total amount requested represents separate requests for both increases and decreases for a total decrease of \$531.9 million in rates for two utilities and an increase of \$350 million in rates for another utility. Table 3 shows the rate adjustments requested and authorized.

TABLE 3
RATE ADJUSTMENTS REQUESTED AND AUTHORIZED
FOR ELECTRIC CORPORATIONS FUEL OFFSETS
(DOLLARS IN MILLIONS)

Adjustments <u>Company</u>	Rate <u>Requested</u>	Rate Adjustments <u>Authorized</u>
Pacific Gas & Electric	(527.3)*	(343.1)
Sierra Pacific Power	(4.6)	(4.9)
Pacific Gas & Electric	0	(79.7)
San Diego Gas & Electric	0	(53.9)
Southern California Edison	<u>350.0</u>	<u>344.6</u>
Total	<u>(181.9)</u>	<u>(137.0)</u>

* Figures in parentheses represent rate decreases; figures not in parentheses represent rate increases.

Of the requests represented on Table 3, the commission authorized a total decrease of \$481.6 million in rates and a total increase of \$344.6 million in rates. Thus, although the authorized rate decreases total \$137.0 million, ratepayers for one of the utilities experienced a rate increase of over \$344 million. By presenting the sum of the amounts, the commission provides incomplete information because the reader will not know that the total figure represents both increases and decreases in the amounts requested and authorized.

Data Errors In The Regulation of
Transportation Rates and
Licensing of Transportation

In the regulation of transportation rates, the commission reports such performance measures as the revenue value of transportation, the number of tariffs analyzed, and the number of formal and informal disciplinary actions for rate violations. In the licensing of transportation, the commission reports such performance measures as applications for the authority to operate motor carriers, insurance filings, and quarterly revenue reports submitted for motor transportation companies.

In the regulation of transportation rates, we reviewed 7 of the 11 performance measures that the commission reported for work conducted during fiscal year 1986-87. Of those 7 measures, the commission correctly reported 3, the data for which were accurate or did not vary by more than 5 percent from our audited figures. However, the commission inaccurately reported data for two measures. For example, although the commission reported that it analyzed and filed 3,000 transportation contracts, the commission processed only 2,205. Thus, the commission overreported the number of contracts by 795 (36 percent). The commission also incorrectly reported the amount of fines and undercharged fees that it collected from truck operators.

Although the commission reported collecting \$279,000 from truck operators, the commission actually had collected \$358,000, \$79,000 (22 percent) more than it reported.

In the licensing of transportation, we reviewed 5 of the 19 performance measures that the commission reported for work conducted during fiscal year 1986-87. Of those 5 measures, the commission correctly reported data for 3. However, the commission did not correctly report the number of applications for the authority to operate motor carriers. Although the commission reported 463 applications, our analysis revealed only 398, a difference of 65 (16 percent). In addition, the commission incorrectly reported the number of quarterly revenue reports for motor carriers of passengers. The commission reported that companies for passenger transportation submitted 2,500 revenue reports, but we found that the companies submitted 2,850 reports, a difference of 350 (12 percent).

These errors occurred because the commission staff did not accurately accumulate the data. For example, in the case in which the commission overreported the number of contracts filed and analyzed, staff included in its count all the contracts filed, not just those that they analyzed. Also, staff did not include certain types of fines in their count of the amount of fines and undercharges. The supervisor did not recall why he did not include these fines in the total fines and undercharges.

Similarly, when the commission overreported the number of applications for the authority to operate motor carriers, the supervisor responsible for reporting this information did not know how the employee who had been assigned this task had arrived at the total, nor did the employee recall how she had compiled the number.

CONCLUSION

The Public Utilities Commission can more fully describe its performance for budget purposes. The performance measures it reports for the governor's budget do not always fully describe the commission's work. The commission only partially describes its work in 31 (48 percent) of the 65 performance measures that we assessed and does not describe its workload at all in 2 (3 percent) of the performance measures. Further, the commission does not link its individual performance measures to the estimated staffing that it needs to accomplish the work.

Finally, data for some of the performance measures reported by the commission are inaccurate. Because staff accumulated data inaccurately, 8 of the 47 performance measures that we reviewed contained error rates greater than 5 percent.

RECOMMENDATIONS

To better describe its performance for budget purposes, the commission should take the following actions:

- Review and modify the performance measures that it currently reports to ensure that the measures more fully describe the commission's work; and
- Present accurate data on those performance measures that it reports.

II

THE CALIFORNIA PUBLIC UTILITIES COMMISSION HAS COMPLIED WITH MOST STATUTORY REQUIREMENTS

We reviewed the commission's performance in meeting the requirements of 12 statutes affecting the commission. The commission completely fulfilled the requirements for 9 statutes and did not fully meet four requirements for 3 statutes. In addition, the commission submitted nine of ten reports required by the statutes. However, although the commission promptly submitted five of these nine reports, it submitted the four remaining ones as much as 144 days late. Finally, the commission does not track the costs of complying with statutes.

The Requirements of the Twelve Statutes

We reviewed the commission's efforts to fulfill the requirements of 12 statutes enacted from 1983 through 1986. Five of the 12 statutes are related to the commission's responsibilities in regulating the transportation industry. Specifically, one of the statutes required the commission to study the feasibility of charging highway transport operators a regulatory fee based on the extent of the regulatory services that the commission provides. Also, the statutes required the commission to study truck safety and the insurance needs in the transportation industry, to establish the qualifications

necessary to obtain permits to operate cement trucks, and to fund a new regulatory program for the transportation industry.

Six of the 12 statutes are related to the commission's role in regulating utilities. One of the statutes requires the commission to consider, approve, and report on rates that are lower than the system average rate for electrical corporations serving steel producers, frozen food processors, or other heavy industry customers. (A utility's system average rate is the utility's total revenues divided by the utility's total energy sold.) Another statute requires the commission to encourage an increased production of California gas and require gas corporations to purchase that gas if it is compatible with the corporations' gas plants and would not result in higher overall costs of gas or other consequences that might be unfavorable to gas customers. In addition, one of the statutes requires the commission to continue to enforce its policy of efficient energy use and affordable basic service and report on the effectiveness of rates for a basic level of service and the baseline quantities for gas and electricity.² Further, another statute requires the commission to periodically review and monitor the development and use of any computer operations program that is used in hearings or proceedings by a public utility to justify changes in rates. Moreover, using a selected area

²A baseline quantity is a quantity of electricity or gas that is from 50 to 70 percent of the average residential consumption of these commodities.

as a model, the commission was required to conduct a feasibility study of the effects of partial deregulation or open competition on telephone services, telephone corporations, and telephone subscribers.

Finally, the remaining statute directs the commission to develop a program that requires utilities that are specified in the statute to increase their procurement of technology, equipment, supplies, services, materials, and construction work from the businesses of women and minorities. Appendix D summarizes the requirements of each of the statutes and shows whether the commission has fulfilled the statutory requirements.

The Commission Met Requirements for Nine Statutes

The commission fulfilled requirements for 9 of the 12 statutes. For example, the commission fulfilled the requirements of the California Gas Policy Act (Chapter 1287, Statutes of 1983, and Chapter 735, Statutes of 1985) to encourage the increased production and purchase of California gas, to regulate purchases of gas by gas corporations, and to report on its own compliance with the act. The commission also fulfilled the requirements of Chapter 221, Statutes of 1984, to study the feasibility of charging highway transport operators regulatory fees based on the extent of the regulatory services that the commission provides, the "operator's authority," and the commodities transported. The commission conducted the study in cooperation with the Department of Finance and representatives of the trucking

industry. According to the statute's requirements, the report addressed issues such as fairness to the transport operators affected by the fees, the costs of administering the collection of variable fees, and the funds that the commission would require to administer the collection of fees.

In another example, the commission fulfilled the requirements of Chapter 1259, Statutes of 1986. This statute directs the commission to develop a program that will require certain classes of electric, gas, and telephone corporations to increase their procurement of technology, equipment, supplies, services, materials, and construction work from the businesses of women and minorities. The commission has developed guidelines and rules for implementing the program. Also, the statute requires the commission to submit an annual report to the Legislature, beginning January 1988, on the progress of the corporations in complying with the program.

The Commission Did Not Fulfill Four Requirements in Three Statutes

Part of Chapter 155, Statutes of 1986, requires that the commission conduct a study on the availability and cost of insurance required for certain segments of the transportation industry regulated by the commission. The statute also requires that the commission submit a preliminary report to the Legislature on this study by February 1, 1987, and a final report by July 1, 1987. However, as of December 1, 1987, the commission has neither completed the study nor

submitted the required reports. The commission has not completed the study because insurance companies did not provide information that the commission requested and that was necessary for completing the study. The commission's executive director stated that the commission informed the statute's author that the reports would be late. The commission also asked the statute's author to assist it in obtaining the necessary information from the insurance companies. An assistant director of the commission's Transportation Division estimates that the commission will submit the preliminary report to the Legislature by January 1988 and the final report by June 1988.

In addition, the commission has not completely fulfilled the requirements of Chapter 1297, Statutes of 1985, which addresses the use of computer programs by public utilities to justify changes in rates. The commission has fulfilled most of the statute's requirements by drafting procedures and rules that the commission should follow when obtaining access to the computer programs and by completing studies intended to validate and suggest improvements for the programs that the various utilities use to plan production costs, financial statements, and other items. As required by the statute, the commission also promptly submitted a report to the Legislature. However, the commission has not completely fulfilled the statute's requirement to periodically review and monitor the development and use of any computer operations program used by any public utility. An operations program replicates, lists, describes, or forecasts a public utility's internal operations, such as its procedures for accounting and cash management.

As of December 1, 1987, although the commission reviewed the programs of six large utilities, the commission had not reviewed the operations programs of all the public utilities that it regulates.

In a letter dated December 8, 1987, to the Office of the Auditor General, the commission's executive director stated that the commission is in the process of reviewing and monitoring the development and use of operations programs for the six largest utilities in the State, and it intends to extend its efforts to smaller utilities. According to the executive director, in the commission's December 1986 report to the Legislature, the commission proposed its plan to focus first on the six largest utilities and then on the smaller utilities. According to the executive director, currently reviewing the smaller utilities would not be a cost-effective use of funds or personnel. Also, the executive director indicated that the Legislature did not criticize or suggest changes to the commission's plan in the report.

Finally, the commission has not completely fulfilled all the requirements of Chapter 473, Statutes of 1986. The commission has fulfilled requirements to study the effectiveness of its compliance with Section 739 of the Public Utilities Code, which requires that the commission promote the efficient use of energy and provide customers with a basic level of service. Also, the commission has fulfilled the statute's requirements to hold hearings and to submit a report on the study. The commission has also fulfilled requirements to establish

residential electric and gas rates that continue the commission's policy for energy conservation and that minimize the effect on the consumer of the timing of rate increases and changes in consumer demand according to the seasons. The statute also requires the commission to establish an affordable basic level of service.

Section 739(c) of the Public Utilities Code requires that the rates for a basic level of service (baseline rates) be set at 15 to 25 percent below the system average rate. According to information provided to us by the commission, the baseline rates charged by some utilities are not within this 15 to 25 percent range. The commission reported to us that 3 gas utilities out of 14 energy utilities are charging baseline rates that are less than 5 percent below the system average rate.³ For example, one utility charges its customers \$0.406 per therm of energy, which is the system average rate, when they should be paying between \$0.345 and \$0.305 per therm of energy, which are the rates at 15 to 25 percent below the system average rate.

According to information provided to us by the commission's executive director and the general counsel, the commission is gradually phasing in the baseline rates within the 15 to 25 percent range. However, the executive director and general counsel further stated that

³These 14 energy utilities are operated by 9 companies, 5 of which--such as Pacific Gas and Electric and San Diego Gas and Electric--provide more than one product.

the commission has not yet established all utilities' baseline rates within this range because the commission is concerned that the discount would raise the rates for other levels of service to cover the lower costs for the basic level of service. The executive director stated that a resolution passed by the Legislature requested the commission to hold down rate increases to 5 percent.

The Commission Did Not Promptly Submit All
of the Reports That the Statutes Required

As of December 1, 1987, the commission should have submitted to the Legislature ten reports related to the statutes. Although the commission has not submitted the report on the insurance needs of the transportation industry, it has submitted the rest of the reports. The commission was prompt in submitting five of these nine reports but was as much as 144 days late for the remaining four reports. For example, the commission was prompt in submitting two required reports for the California Gas Policy Act (Chapter 2117, Statutes of 1983) but was late in submitting another similar report for the act (Chapter 1380, Statutes of 1985). In addition, while the commission fulfilled all the requirements of Chapter 1079, Statutes of 1985, for a feasibility study using a telephone service area as a model of deregulated telephone services, the commission was approximately 120 days late in submitting a report on the study to the Legislature. The report was due to the Legislature by January 1, 1987. However, the commission did not submit the report until May 1987.

In the letter dated December 8, 1987, the commission's executive director stated that the commission staff maintained contact with the appropriate legislative staff to inform them of the commission's inability to meet some deadlines contained in the statutes. He further stated that no formal documentation exists proving that the commission contacted the Legislature or that legislators or their staff accepted the late submission dates. The executive director stated that the commission regrets not submitting reports to the Legislature promptly but did so because it sought to improve the quality of its reports.

The Commission Does Not Track the Costs of Complying With Statutes

Under 7 of the 12 statutes, a total of \$1,658,000 was appropriated to the commission. Although the statutes did not specifically require the commission to track the expenditures of appropriated funds, the Legislature requested that we review the commission's expenditures in complying with the 12 statutes. However, because the commission did not track the expenditure of these funds and, consequently, could not provide complete cost information, we could not determine the commission's actual expenditures in complying with the 7 statutes.

Although the commission was able to estimate the costs of complying with all 12 of the statutes, it could not provide cost data to support the estimates. For 5 of the statutes, the commission

provided estimates of the staff time involved in performing the work and the midrange salary for staff members. For the 7 other statutes, the commission provided estimates of the staff time involved in performing the work and an average cost per hour for commission staff. Nevertheless, the commission was unable to provide records that we needed to confirm the accuracy of the estimates.

However, the commission can use its standard time-reporting system to track some of the costs of complying with statutes. This system can track the number of hours charged by staff, and according to the commission's director of the Management Services Division, the commission could easily modify the system to track the hours charged by staff to fulfill statutory requirements. In this way, the commission can account for the resources that it spends to complete projects that are not part of its usual activities.

CONCLUSION

Although the commission completely fulfilled the requirements for 9 of 12 statutes, it did not fulfill four requirements of 3 statutes. Specifically, the commission did not conduct a study on the availability and cost of insurance for segments of the transportation industry that it regulates, and it did not submit the required preliminary and final reports on that study. However, the commission has taken steps to complete the insurance study by asking the statute's author to assist

it in obtaining the necessary information from insurance companies. In addition, the commission has not reviewed and monitored the development and use of computer operations programs used by all public utilities, and it has not established baseline rates for some residential gas usage according to statutory requirements. Further, although the commission promptly submitted five reports to the Legislature, it submitted four other reports as much as 144 days late. Finally, the commission does not track the costs of complying with statutory requirements.

RECOMMENDATIONS

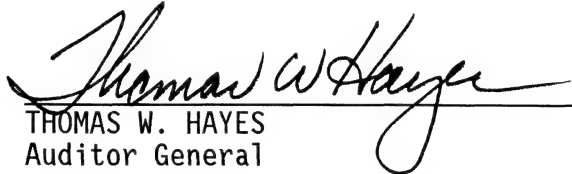
To improve its compliance with statutory requirements, the commission should take the following actions:

- Reassess its statutory responsibility to review the computer operations programs of public utilities;
- Report to the Legislature on or before February 1, 1989, on its progress in implementing baseline rates according to the requirements of Chapter 473, Statutes of 1986; and
- Complete and submit all reports by the mandated deadlines.

To improve its accounting of funds used to comply with statutes, the commission should use its standard time-reporting system to accurately track the costs of complying.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: January 19, 1988

Staff: Thomas A. Britting, Audit Manager
Noriaki Hirasuna, CPA
Keith Kuzmich
Rene Gutierrez
Preston Peterson
Thomas J. Wurtz

**THE DEGREE TO WHICH PERFORMANCE MEASURES
DESCRIBE THE COMMISSION'S WORK**

<u>Performance Measure</u>	<u>Fully Descriptive</u>	<u>Partially Descriptive</u>	<u>Not Descriptive</u>
REGULATION OF UTILITY RATES:			
Informal cases processed	4		
Advice letters processed	1	1	
Offset rate resolutions	1		
General rate decisions		4	
Energy cost offset decisions		2	
Conservation offset applications		2	
Rate base offset		1	
General rate resolutions		1	
Amounts requested		9	
Amounts authorized		9	
REGULATION OF TRANSPORTATION RATES:			
Tariffs analyzed and filed	4		
Contracts analyzed and filed	1		
Rate reductions and rate filings	1		
Compliance investigations	1		
Disciplinary actions	1		
Fines and undercharges collected		1	
Public value of transportation			2
LICENSING OF TRANSPORTATION:			
Applications	4		
Suspensions, revocations, and reinstatements	1		
Insurance, bond filings	1		
Quarterly revenue reports	2		
Investigations	2		
Road checks conducted	1		
Citations and court filings	2		
Registrations	1		
Identification stamps issued	1		
Delinquent payment contacts	1		
Requests for information	2		
Amounts of payments secured	—	<u>1</u>	—
Total	<u>32</u> —	<u>31</u> —	<u>2</u> —

APPENDIX B

THE COMMISSION'S SETTLEMENT WITH THE SOUTHERN CALIFORNIA GAS COMPANY REGARDING ITS GENERAL RATE CASE FOR TEST YEAR 1988

A deputy director in the commission's Division of Ratepayer Advocates (division) said that the division reviewed and analyzed this rate case of the Southern California Gas Company in exactly the same manner as if Southern California Gas Company had not proposed a settlement. The division prepared all the analyses necessary for a hearing for a general rate case but stopped just short of putting these analyses in the format for formal presentation in hearings before the commission. The approximately 12,600 hours that commission staff spent on these analyses compares to the approximately 14,900 hours that they spent on the Southern California Gas Company's last general rate case for test year 1985. Staff spent approximately 1,100 hours on the formal presentations for general rate case hearings for the test year 1985.

The division and the Southern California Gas Company reached a settlement in January 1987. Before issuing a decision which adopted this settlement in May 1987, the commission conducted two public hearings to allow public comment on the proposed settlement. The commission justified its adoption of the settlement by citing an \$18 million savings to ratepayers in 1988 and by stating that the settlement would reduce administrative burdens.

Consumer advocate groups have criticized the commission for failing to provide them an effective opportunity to participate in the settlement process. These groups have cited the settlement with the Southern California Gas Company as an example of a case in which the commission unfairly restricted public participation. Although the commission believes that the procedures that it used to review this settlement were appropriate and legal, it has developed a formal policy on settlements and stipulations. (Stipulations are agreements on an issue of law or fact material to a proceeding.) According to the commission, "The structure of formal rules for stipulations and settlements will provide notice and opportunity to all parties to address the stipulations and settlements, to raise and explore concerns in a formal setting and to develop a record on which the commission may render an informed decision on the stipulation or settlement" (Commission Decision 87-11-053 November 25, 1987).

ACCURACY OF PERFORMANCE DATA FOR THE
REGULATION OF UTILITY RATES,
REGULATION OF TRANSPORTATION RATES,
AND LICENSING OF TRANSPORTATION

Performance Measure	PUC Reported FY 1986-87 Totals	OAG Audited FY 1986-87 Totals	Difference	Percent Difference
REGULATION OF UTILITY RATES				
Electric Corporations:				
General rate case decisions	3	3	0	
General rate increases requested (in millions)	\$754	\$754	0	
General rate increases authorized (in millions)	\$112	\$112	0	
Energy cost offset decisions	5	5	0	
Energy cost offset increases requested (in millions)	\$(182)	\$(182)	0	
Energy cost offset increases authorized (in millions)	\$(137)	\$(137)	0	
Conservation offset applications processed	2	2	0	
Informal cases processed (Consumer Affairs)	12,126	14,497	2,371	16.4%
Rate base offsets decisions	3	3	0	
Rate base offsets increases requested (in millions)	\$998	\$996	\$2	0.2%
Rate base offsets increases authorized (in millions)	\$979	\$947	\$32	3.4%
Gas and Heat Corporations:				
General rate case decisions	2	2	0	
General rate increases requested (in millions)	\$227	\$227	0	
General rate increases authorized (in millions)	\$5	\$5	0	
Energy cost offset decisions	3	3	0	
Energy cost offset increases requested (in millions)	\$67	\$69	\$2	2.9%
Energy cost offset increases authorized (in millions)	\$356	\$356	0	
Conservation offset applications processed	1	1	0	
Informal cases processed (Consumer Affairs)	8,003	8,360	357	4.3%
Telephone and Telegraph Corporations:				
General rate case decisions	1	1	0	
General rate increases requested (in millions)	\$124	\$124	0	
General rate increases authorized (in millions)	\$13	\$13	0	
Advice letters processed (General Order 96-A)	0	0	0	
Informal cases processed (Consumer Affairs)	26,887	29,239	2,352	8.0%

Performance Measure	PUC Reported FY 1986-87 Totals	OAG Audited FY 1986-87 Totals	Difference	Percent Difference
Water and Sewer System Corporations:				
General rate case decisions	31	31	0	
General rate increases requested (in millions)	\$23.6	\$28.0	\$4.4	15.7%
General rate increases authorized (in millions)	\$7.9	\$8.1	\$.2	2.5%
General rate increase resolutions	15	15	0	
General rate increases requested by advice letter	\$575,587	\$575,387	0	
General rate increases authorized by resolution	\$379,837	\$378,017	\$1,820	.5%
Offset rate increase resolutions	24	24	0	
Offset increases requested by advice letter	\$4,281,707	\$4,166,540	\$115,167	2.8%
Offset increases authorized by resolution	\$4,281,707	\$4,165,556	\$116,151	2.8%
Advice letters processed	340	325	15	4.6%
Informal cases processed (Consumer Affairs)	2,193	2,553	360	14.1%
REGULATION OF TRANSPORTATION RATES				
Public value of motor carrier property transportation under commission purview (millions)	\$5,766	\$5,889	\$123	2.1%
Number of tariffs analyzed and filed: property	76,000	74,377	1,623	2.2%
Number of tariffs analyzed and filed: passenger	6,000	*		
Number of motor carrier contracts analyzed and filed	3,000	2,205	795	36.1%
Rate reduction and competitive rate filings processed	1,300	*		
Number of formal and informal disciplinary actions for rate violations	170	169	1	0.6%
Amount of fines and undercharges collected (thousands)	\$279	\$358	\$79	22.2%
LICENSING OF TRANSPORTATION				
Application for motor carrier operating authority	463	398	65	16.3%
Insurance, subhaul and COD bond filings, cancellation and reinstatement transactions for motor carriers	111,192	111,192	0	
Quarterly revenue reports for motor carriers:				
Property	93,400	93,345	55	0.1%
Passengers	2,500	2,850	350	12.3%
Registration of interstate motor carriers	3,491	3,479	12	0.3%

*Measures could not be audited because the Transportation Division could not provide summary documents.

**A SUMMARY OF THE REQUIREMENTS OF 12 STATUTES
RELATED TO THE PUBLIC UTILITIES COMMISSION
AND THE EXTENT OF THE COMMISSION'S COMPLIANCE**

<u>Statute</u>	<u>Response of the Public Utilities Commission</u>	<u>Conclusion of the Office of the Auditor General</u>
<p>Chapter 1287, Statutes of 1983, required the commission to encourage the increased production of gas. The statute mandated the commission to require gas corporations to purchase California gas that is compatible with the firms' gas plants unless this requirement will result in consequences that are unfavorable to gas customers. Finally, the statute required the commission to report annually to the Legislature.</p> <p>Under this statute, funds were not appropriated to the commission.</p>	<p>The commission encouraged the increased production of California gas. Gas utilities governed by this statute purchase California-produced gas before buying comparably priced out-of-state gas.</p> <p>Additionally, the commission issued decisions that require gas corporations to purchase California-produced gas that is compatible with the corporations' gas plants unless the requirements result in consequences that are unfavorable to the consumer.</p> <p>The commission has issued two annual reports to the Legislature.</p>	<p>The commission fulfilled all sections of the statute.</p> <p>The commission regulated the gas utilities specified in the statute.</p>

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 221, Statutes of 1984, requires the commission, in cooperation with the Department of Finance and representatives of highway carriers, to study the feasibility of establishing variable fees for highway carriers based on the extent of the regulatory services that the commission provides. The statute requires the commission to report its findings and conclusions to the Legislature by January 1, 1985.</p> <p>The statute permits the director of the Department of Finance to authorize the commission to borrow a maximum of \$10 million.</p> <p>Under this statute, funds were not appropriated to the commission.</p>	<p>The commission conducted the feasibility study. The study included all reporting requirements.</p> <p>The commission borrowed \$2.2 million under the statute.</p>	<p>The commission reported to the Legislature on the feasibility of variable fees.</p> <p>The commission borrowed \$2.2 million under the statute.</p>

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 1079, Statutes of 1985, requires the commission to study the feasibility of creating a working informational model of telephone service that has greater deregulation. The statute directed the commission to report to the Legislature by January 1, 1987. The statute appropriated \$184,000 to the commission for the study.</p>	<p>The commission conducted a feasibility study of a working informational model with greater telephone deregulation. The commission submitted the report to the Legislature in May 1987.</p>	<p>The commission recommended against conducting a working informational model of telephone service that has greater deregulation. However, the commission did not meet the January 1, 1987, reporting date specified in the statute.</p>

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
Chapter 1142, Statutes of 1985, defines the criteria that applicants must meet to obtain cement carrier permits.	The commission defined the criteria that applicants must meet to obtain permits to operate as cement carriers.	The commission fulfilled all sections of the statute's requirements.
Further, the statute requires the commission to require rate-exempt carriers in the transport market to pay one-tenth of one percent of gross operating revenues to the commission between July 1, 1986, and June 30, 1987.	The commission set fees for rate-exempt and rate-regulated cement carrier operators.	
The statute authorizes the commission to increase fees for rate-regulated carriers to a legislated maximum.	The commission studied its actual costs of providing its services for rate-exempt carriers.	
The statute requires the commission to study regulatory costs.		
Under this statute, \$70,000 was appropriated to the commission.		

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 1297, Statutes of 1985, requires selected public utilities to provide the commission with access to all computer operations programs used in hearings to justify changes in rates. The statute requires the commission to implement this requirement. The statute also directs the commission to conduct studies to validate and improve computer planning programs used in hearings or proceedings. The statute requires the commission to report on the results of these studies to the Legislature by January 1, 1987. Finally, the statute requires the commission, along with interested parties, to establish procedures for the validation and use of computer programs as evidence before commission hearings and proceedings.</p> <p>Under this statute, \$390,000 was appropriated to the commission.</p>	<p>The commission did not review and monitor the development and use of all computer operations programs used by all public utilities.</p> <p>The commission conducts studies to validate and improve computer planning programs of public utilities. The commission reported to the Legislature as required.</p> <p>The commission developed proposed rules, procedures, and guidelines in compliance with all sections of the statute involving computer access.</p>	<p>The commission fulfilled all but one section of the statute.</p>

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 1380, Statutes of 1985, (similar to Chapter 1287, Statutes of 1983) requires the commission to encourage increased production of gas and to require all gas corporations to purchase California-produced gas.</p>	<p>The commission encouraged the increased production of gas and required gas corporations subject to the statute to purchase California-produced gas.</p>	<p>The commission fulfilled all the regulatory sections of the statute. The commission regulated gas utilities governed by this chapter. However, the commission did not meet a reporting deadline for a required annual report to the Legislature.</p>
<p>The chapter directs the commission to require every gas corporation to purchase gas in accordance with legislation while assuring its customers of the lowest rates possible, taking into account the security of supply.</p>	<p>The commission requires gas corporations to adopt and pursue purchasing and procurement policies that assure customers of the lowest rates possible, taking into account the security of supply.</p>	
<p>The chapter defines the commission's regulatory activities in the gas industry and defines annual reporting requirements to the Legislature.</p>	<p>The commission requires gas corporations to make reasonable and prudent purchases of gas. The commission reviews the reasonableness of the gas corporations' purchases.</p>	

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 1392, Statutes of 1985, requires electrical corporations to offer specified electricity rates for selected heavy industry customers. The statute requires the commission to consider and approve electricity rates and tariffs consistent with this section before July 1, 1986. Finally, the statute requires the commission to report to the Legislature and the governor on the impact of this statute by September 30, 1985.</p> <p>Under this statute, \$229,000 was appropriated to the commission.</p>	<p>The three electrical corporations governed by Chapter 1392, Statutes of 1985, offered rates in accordance with the provisions of the statute.</p> <p>The commission considered and approved the tariffs for the three corporations--Pacific Gas and Electric, Southern California Edison, and San Diego Gas and Electric--before July 1, 1986. The commission submitted the required report for this statute on February 21, 1986.</p>	<p>The electrical corporations governed by this statute provided rates to steel producers and other heavy industrial customers in compliance with the statute. The commission approved tariffs consistent with this section before July 1, 1986.</p> <p>The commission fulfilled all reporting requirements in its report to the Legislature. However, the commission did not meet the reporting deadline of September 30, 1985, that was specified in the statute.</p>

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
Chapter 155, Statutes of 1986, requires the commission to conduct a study of insurance coverage required for classes of property carriers in the California transport market.	The commission failed to submit preliminary or final reports on insurance coverage.	The commission did not meet the reporting requirements of the statute. However, the commission adjusted liability insurance for agricultural carriers.
The statute requires the commission to submit a preliminary report on insurance coverage to the Legislature by February 1, 1987. The statute requires the commission to submit a final report by July 1, 1987.	The commission adjusted liability insurance for seasonal agricultural carriers.	
The statute defines the amount of liability insurance required of seasonal agricultural carriers.	The assistant director of the commission's Transportation Division estimates that the commission will report to the Legislature in June 1988.	
The statute appropriated \$500,000 to the commission for the insurance coverage study.		

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 473, Statutes of 1986, requires the commission to establish electric and gas rates that minimize the effects of the timing of rate increases and changes in consumer demand according to the seasons.</p>	<p>The commission established rates for residential electric and gas service that minimize the effects on the consumer of the timing of rate increases and changes in consumer demand according to the seasons.</p>	<p>The commission did not establish the required gas and electric rates for 3 of 14 utilities.</p>
<p>The statute requires the commission to study the effectiveness of its compliance with the Public Utilities Code, Section 739, in providing basic service and efficient energy use. The statute directs the commission to report its findings, conclusions, and recommendations to the Legislature by June 30, 1987.</p>	<p>The commission established residential gas and electric rates that continue its policy of efficient energy use.</p> <p>The commission submitted the required study in its report to the Legislature entitled "Per AB 2764: Findings and Recommendations Regarding the Baseline Program."</p>	
<p>Under this statute, \$50,000 was appropriated to the commission.</p>	<p>For 3 of 14 energy utilities, the commission established rates for a basic level of service that fail to conform with the Public Utilities Code, Section 739(c).</p>	

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 1160, Statutes of 1986, funded the commission's new regulatory program for highway carriers.</p>	<p>According to the assistant director of the commission's Transportation Division, the commission used the appropriation to add staff for the new regulatory program for highway carriers.</p>	<p>The commission used the appropriation in accordance with the statute.</p>
<p>The statute appropriated \$235,000 to the commission for the new regulatory program.</p>		

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 1259, Statutes of 1986, requires the commission to develop a program for the businesses of women and minorities for electric, gas, and telephone utilities with gross annual revenues exceeding \$25 million. The statute requires the commission to direct the utilities that are subject to the legislation to implement the commission's program. Under this statute, funds were not appropriated for the commission.</p>	<p>The commission developed the proposed guidelines for electric, gas, and telephone corporations with gross annual revenues exceeding \$25 million. If implemented, the commission's proposals, as of December 1, 1987, will fulfill all requirements of the statute.</p>	<p>The commission drafted proposed guidelines regarding the businesses of women and minorities that fulfill statutory requirements. The guidelines are undergoing review and modification.</p>

Statute	Response of the Public Utilities Commission	Conclusion of the Office of the Auditor General
<p>Chapter 1292, Statutes of 1986, requires the commission and the Department of California Highway Patrol (department) to jointly conduct a safety study. The statute requires the commission and the department to address seven questions on the operations and maintenance of heavy trucks on California highways. The statute requires the commission and the department to report to the Legislature by June 30, 1987.</p>	<p>The commission and department fulfilled the seven reporting requirements for the safety study.</p> <p>The commission and department submitted their report to the Legislature on November 6, 1987.</p>	<p>The commission and the department fulfilled all reporting requirements. However, they did not meet the required deadline of June 30, 1987.</p>
<p>Under this statute, funds were not appropriated to the commission for the safety study.</p>		

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102



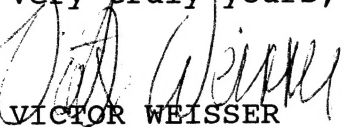
January 7, 1988

• Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

• Dear Mr. Hayes:

Thank you for the opportunity to review the draft audit report on the Commission's budget performance measures and compliance with statutes. Although the limited comment time does not allow for a formal Commission response, I agree with the report's recommendations (albeit I differ with a few aspects of the analysis) and will begin implementation of them immediately.

Very truly yours,


VICTOR WEISSNER
Executive Director

cc: PUC Commissioners

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps